

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Chairman;
Michael Kubayanda, Vice Chairman;
Mark Acton;
Ann C. Fisher; and
Ashley E. Poling

Competitive Product Prices
Priority Mail Contracts
Priority Mail Contract 587

Docket No. MC2020-82

Competitive Product Prices
Priority Mail Contract 587 (MC2020-82)
Negotiated Service Agreements

Docket No. CP2020-81

ORDER ADDING PRIORITY MAIL CONTRACT 587
TO THE COMPETITIVE PRODUCT LIST

(Issued January 17, 2020)

I. INTRODUCTION

The Postal Service seeks to add a new product identified as Priority Mail Contract 587 to the competitive product list.¹ For the reasons discussed below, the Commission approves the Request.

¹ USPS Request to Add Priority Mail Contract 587 to Competitive Product List and Notice of Filing Materials Under Seal, December 23, 2019 (Request).

II. BACKGROUND

On December 23, 2019, in accordance with 39 U.S.C. § 3642 and 39 C.F.R. §§ 3020.30-.35, the Postal Service filed the Request, along with supporting documents. In the Request, the Postal Service asserts that Priority Mail Contract 587 is a competitive product that establishes rates “not of general applicability” within the meaning of 39 U.S.C. § 3632(b)(3). Request at 1. Among the supporting documents, the Postal Service included a copy of the Governors’ Decision authorizing the product, a contract related to the proposed new product, requested changes to the competitive product list, a statement supporting the Request, a certification of compliance with 39 U.S.C. § 3633(a), and financial workpapers. In addition, the Postal Service submitted an application for non-public treatment of materials requesting that unredacted portions of the Governors’ Decision and the contract, customer-identifying information, and related financial information remain under seal. *Id.* Attachment F.

The contract is intended to take effect two business days after the date that the Commission issues all necessary regulatory approval. Request, Attachment B at 7. It is set to expire three years from the effective date. *Id.*

On December 27, 2019, the Commission issued a notice establishing the two dockets, appointing a Public Representative, and providing interested persons with an opportunity to comment.²

On January 7, 2020, Chairman’s Information Request No. 1 was issued.³ CHIR No. 1 asked the Postal Service questions pertaining to the weight and zone data that would be collected during the contract for purposes of calculating cost coverage. See CHIR No. 1, questions 1-2. The Postal Service filed its response on January 14, 2020.⁴

² See Docket No. CP2018-123, *et al.*, Notice Initiating Docket(s) for Recent Postal Service Negotiated Service Agreement Filings, December 27, 2019.

³ Chairman’s Information Request No. 1 and Notice of Filing Under Seal, January 7, 2020 (CHIR No. 1).

⁴ USPS Response to Chairman’s Information Request No. 1, Filed Under Seal, January 14, 2020 (Response to CHIR No. 1).

III. COMMENTS

The Public Representative filed comments on December 30, 2019.⁵ No other interested person filed comments. The Public Representative concludes that the contract should be categorized as a competitive product and added to the competitive product list, and it should generate sufficient revenue to cover its costs during the first year. PR Comments at 2. He characterizes as reasonable the Postal Service's assertions regarding the classification of the contract as a competitive product. See *id.* at 3. He notes that the Commission will have an opportunity to review the contract's revenue and cost data in a future Annual Compliance Determination (ACD). *Id.* at 4.

IV. COMMISSION ANALYSIS

The Commission has reviewed the Request, the contract, the supporting data filed under seal, the Response to CHIR No. 1, and the Public Representative's comments.

Product list requirements. The Commission's statutory responsibilities when evaluating the Request include assigning Priority Mail Contract 587 to either the market dominant or competitive product list. See 39 U.S.C. § 3642(b)(1); 39 C.F.R. § 3020.34. Before adding a product to the competitive product list, the Commission must determine that the Postal Service does not exercise sufficient market power that it can effectively set the price of the product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. See 39 U.S.C. § 3642(b)(1). In addition, the Commission must consider the availability and nature of private sector enterprises engaged in delivering the product, the views of those who use the product,

⁵ Public Representative Comments on Postal Service Request to Add Priority Mail Contract 587 to Competitive Product List, December 30, 2019 (PR Comments).

and the likely impact on small business concerns. See 39 U.S.C. § 3642(b)(3); 39 C.F.R. §§ 3020.32(f), (g), and (h).

The Postal Service asserts that it provides postal services of the kind provided under the contract in a highly competitive market, that other shippers who provide similar services constrain its bargaining position, and that it can therefore neither raise prices nor decrease service, quality, or output without risking the loss of business to competitors. Request, Attachment D at 2. The Postal Service states that the contract partner supports the Request, that expedited shipping is widely available from private firms, and that the Postal Service is unaware of any small business concerns that could offer comparable services to the contract partner. *Id.* at 3.

The Commission finds that the Postal Service does not exercise sufficient market power that it can effectively set the price of the proposed product substantially above costs, raise prices significantly, decrease quality, or decrease output, without the risk of losing a significant level of business to other firms offering similar products. The availability of other private sector providers supports this conclusion. The contract partner and the Public Representative support the addition of the Priority Mail Contract 587 product to the competitive product list. Further, there is no evidence of an adverse impact on small businesses. For these reasons, having considered the relevant statutory and regulatory requirements, the comments filed, and the Postal Service's supporting justification, the Commission finds that Priority Mail Contract 587 is appropriately classified as competitive and is added to the competitive product list.

Cost considerations. Because the Commission finds Priority Mail Contract 587 is a competitive product, the Postal Service must also show that the contract covers its attributable costs, does not cause market dominant products to subsidize competitive products as a whole, and contributes to the Postal Service's institutional costs. 39 U.S.C. § 3633(a); 39 C.F.R. §§ 3015.5 and 3015.7. As long as the revenue generated by the contract exceeds its attributable costs, the contract is unlikely to reduce the contribution of competitive products as a whole or to adversely affect the

ability of competitive products as a whole to contribute an appropriate share of institutional costs. In other words, if the contract covers its attributable costs, it is likely to comply with 39 U.S.C. § 3633(a).

Based on a review of the record, the Commission finds that the rates during the first year of the contract should cover the contract's attributable costs. 39 U.S.C. § 3633(a)(2). The contract contains a price adjustment provision that adjusts contract rates during subsequent contract years. Request, Attachment B at 6. Combined with sufficiently high first-year cost coverage, the contract's price adjustments will help ensure that the contract will cover attributable costs in subsequent contract years. For these reasons, the Commission also finds that the contract should not result in competitive products as a whole being subsidized by market dominant products, in accordance with 39 U.S.C. § 3633(a)(1). Similarly, the Commission finds the contract is unlikely to prevent competitive products as a whole from contributing an appropriate share of institutional costs, consistent with 39 U.S.C. § 3633(a)(3). *See also* 39 C.F.R. § 3015.7(c). Accordingly, a preliminary review of the contract indicates it is consistent with section 3633(a).

The Commission will review the contract's cost coverage and the contribution of competitive products as a whole to the Postal Service's institutional costs in the Commission's ACD to ensure that they continue to comply with 39 U.S.C. § 3633(a).

Data Collection for Compliance Determination. In the FY 2017 ACD, the Commission noted that it would increase its scrutiny of forward-looking customer weight and zone profiles that will be used to calculate cost coverage in the ACD.⁶ To prevent the need to rely on the forward-looking profile when determining the compliance of this contract, the Postal Service shall sample data as described in the Response to CHIR No. 1. The Postal Service shall rely on that sampled data when reporting cost coverage for this contract in its Annual Compliance Report.

⁶ Docket No. ACR2017, Annual Compliance Determination Report, March 29, 2018, at 85 (FY 2017 ACD).

Other considerations. By its terms, the contract becomes effective two business days after the date that the Commission issues all necessary regulatory approval. Request, Attachment B at 7. The contract is scheduled to expire three years from the effective date, unless, among other things, either party terminates the contract with 30 days' written notice to the other party or it is renewed by mutual agreement.⁷

The contract also contains a provision that allows the parties to extend the contract for two 90-day periods if a successor agreement is being prepared and the Commission is notified at least seven days prior to the contract's expiration date. *Id.* During the extension periods, prices will be adjusted as described in the contract. *Id.* The Commission finds the two potential 90-day extension periods are reasonable because: (1) prices are automatically adjusted in the extension period; and (2) the extension(s) should assist the Postal Service's contract negotiations by providing additional flexibility.

If the instant contract is terminated prior to the scheduled expiration date, the Postal Service shall promptly file notice of such termination with the Commission in these dockets.

In conclusion, the Commission approves Priority Mail Contract 587 as a new product. Revisions to the competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.

V. ORDERING PARAGRAPHS

It is ordered:

1. Priority Mail Contract 587 (MC2020-82 and CP2020-81) is added to the competitive product list as a new product under Negotiated Service Agreements,

⁷ *Id.* Should both parties agree to renew the contract, any such renewal is required to follow the requirements of 39 U.S.C. § 3633 and the Commission's implementing regulations of 39 C.F.R. part 3015.

Domestic. Revisions to the competitive product list and the Mail Classification Schedule appear below the signature of this Order and are effective immediately.

2. In each Annual Compliance Report docket covering the term of Priority Mail Contract 587, the Postal Service shall report cost coverage for this contract using sampled weight and zone data as described in the body of this order.
3. The Postal Service shall promptly file notice of the instant contract's termination with the Commission in these dockets if the instant contract terminates prior to the scheduled expiration date.
4. The Secretary shall arrange for publication in the *Federal Register* of an updated product list reflecting the change made in this Order.

By the Commission.

Ruth Ann Abrams
Acting Secretary

CHANGE IN PRODUCT LIST

The following material represents changes to the product list codified in Appendix B to 39 C.F.R. part 3020, subpart A—Competitive Product List. These changes reflect the Commission’s order in Docket Nos. MC2020-82 and CP2020-81. The Commission uses two main conventions when making changes to the product list. New text is underlined. Deleted text is struck through.

Appendix B to Subpart A of Part 3020—Competitive Product List

Negotiated Service Agreements*

Domestic*

Priority Mail Contract 587

CHANGES TO THE MAIL CLASSIFICATION SCHEDULE

The following material represents a change to the Mail Classification Schedule. The Commission uses two main conventions when making changes to the Mail Classification Schedule. New text is underlined. Deleted text is struck through.

Part B—Competitive Products **2000 Competitive Product List**

Negotiated Service Agreements*

Domestic*

Priority Mail Contract 587

2500 Negotiated Service Agreements

2505 Domestic

2505.5 Priority Mail Contracts

- Priority Mail Contract 587

Baseline Reference

Docket Nos. MC2020-82 and CP2020-81

PRC Order No. 5410, January 17, 2020

Included Agreements

CP2020-81, expires January 20, 2023
